Canada: Inflation Rising Faster than Expected

HIGHLIGHTS

- The total consumer price index (CPI) rose 0.7% in January.
- The components that contributed the most to this increase were telephone services (+6.5%), gasoline (+3.2%), food purchased at restaurants (+0.9%), air transportation (+3.3%), and fresh vegetables (+3.7%).
- On the other hand, the components that significantly slowed the total CPI were furniture (-3.1%), footwear (-2.6%), women’s clothing (-1.6%), sports and training equipment (-9.8%), and meat (-0.7%).
- The total annual inflation rate went from 1.9% to 1.7%.
- The annual change in the common CPI rose to 1.8% in January versus 1.6% in December. The Bank of Canada’s (BoC) two other reference indexes remained unchanged.

COMMENTS

The 0.7% increase in the total CPI seen in January is higher than expected. The main surprise was the seasonally adjusted total CPI, which rose 0.5% during the month. It may not seem like much, but the upward trend in the total CPI noticeably quickened over the last few months. This may be a sign that the upside effects caused by the disappearance of excess capacity are starting to be felt more and more.

The less-than-expected decrease in the annual change in CPI has significant repercussions on the projected total annual inflation rate for the coming months. It could once again climb above the BoC’s target median (2%) as early as next month and come close to the upper target (3%) during the summer.

IMPLICATIONS

Inflationary pressures are becoming increasingly significant throughout Canada. There is no longer any reason to maintain the heavily expansionary monetary policy still in place. As a result, other increases in the overnight rate will have to be imposed in the coming quarters. The next one is expected to be announced in April, which will coincide with the publication of the Monetary Policy Report.

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